

5 REPORTING THE APPRAISAL

5-0 INTRODUCTION

Accurate and thorough appraisal reporting is critical to the accuracy of underwriting for the mortgage insurance process. The need for accuracy is greater for FHA-insured mortgages because buyers tend to have more limited income and lower equity in the properties. This chapter presents the requirements for reporting complete and accurate appraisal information to HUD. An appraisal performed for HUD/FHA purposes requires that all sections of the Comprehensive Valuation Package (CVP) must be completed. The CVP constitutes the reporting instrument to HUD for FHA-insured mortgages.

5-1 REPORTING THE APPRAISAL

When the appraisal is completed, submit the CVP and all required attachments – maps, photographs, sketches, etc. to the lender. Also, for new and proposed construction, submit the plans, specifications, construction documents and the completed builder's certification (Form HUD-92541). Submit the original package and a complete copy to the lender.

The CVP is required for reporting the appraisal findings, analyses and conclusions about the observed conditions of the property. A complete HUD appraisal package includes three parts: the Uniform Residential Appraisal Report (URAR), the Valuation Conditions Form and the Homebuyer Summary. These are described below.

A. PART 1: UNIFORM RESIDENTIAL APPRAISAL REPORT (URAR)

The URAR is the standard appraisal reporting form available through all lenders. The following are required in reporting appraisal findings on the URAR:

- All information must be reported consistently with the HUD protocol in Appendix D of this Handbook.
- All findings must be reported consistent with Standard 2 of USPAP for a summary report.
- All boxes must be filled in and relevant factual data included, unless specifically noted.
- All calculations must be verified.
- Consistency between the sections must be verified.

1. Departure from HUD Requirements

HUD requirements are presented in this Handbook. Any departure from these requirements must be explained in the URAR or as an attachment to the appraisal. Present the reasoning, the result of such departure and any additional limitations to the use of the appraisal or the reported value as a result of this departure. Departure from USPAP is not permitted for an appraisal submitted to HUD.

2. Certification

Within the URAR, the appraiser must certify that the reported value is an unbiased, independent valuation of the subject property. This certification is

consistent with that required by USPAP. Of particular importance is the certification that the appraisal is not based on any of the following:

- a requested minimum value
- a specific value
- the approval of a loan as indicated

(5-1)

If the appraiser is subject to additional certifications in developing and reporting the appraisal, include them in the URAR report. Such additional certifications may be the result of state certification requirements in certain jurisdictions or of relationships with professional appraisal and real estate organizations.

The assigned appraiser is required to sign the report making him/her fully and wholly accountable for the information presented on the URAR and in developing the appraisal findings. If any party provided significant professional assistance, name this party on the certification and note the contribution.

3. Statement of Limiting Conditions

For each appraisal, the URAR includes the standard limiting conditions. The appraiser must confirm these limiting conditions and strike any that do not apply.

Also, if there are additional limiting conditions, clearly state them. If the limiting conditions differ or are contrary to the limiting conditions stated on the URAR, fully disclose those limiting conditions and make them known in the value estimate. Cite any value-influencing limiting conditions with the report of the estimate of market value.

The repair conditions reported in the VC segment of the report constitute a limiting condition for the development of the appraisal because HUD appraisals estimate value “as-repaired.” The reported estimate assumes that the noted deficiencies have been corrected. It is, therefore, important that the appraiser certify to testing specific systems and examining all areas of the house to note the deficiencies.

B. PART 2: VALUATION CONDITIONS FORM

The Valuation Conditions (VC) Form specifically addresses physical conditions of the property that may render the property uninhabitable or cause health and safety concerns. Note the conditions observed during the walk-through on the VC form as of the date of appraisal. A home inspection is not required to complete the VC. The VC form is divided into Location and Property Analysis as well as other property related information.

- VC-1 identifies the location hazards and nuisances that may render a location ineligible for FHA insurance.

- VC-2 through VC-11 identify the basic structural and mechanical components of the property and are the bases for determining if the property is habitable and eligible for FHA-insured financing.
- VC-12 and VC-13 provide further information on the property.
- The addenda include a provision for current market assessed value and a summary of estimated repair costs.

(5-1)

Each section must be completed entirely, based on the instructions in the protocol in Appendix D of this Handbook.

The appraiser must observe the property's components, test certain basic operations, view areas of the home that may include adverse conditions and report on readily observed adverse conditions. In all instances, the observations are as of the effective date of value, as identified in the VC and appraisal segments.

- For each item in VC-1, a "YES" renders the property ineligible for FHA mortgage insurance.
- For each specific item in VC-2 through VC-11, "YES" indicates a limiting condition on the appraisal subject to the repair of the deficiency or further inspection.
- For each specific item in VC-2 through VC-11, "NO" indicates that the appraiser did not observe a deficient condition.

The appraiser may encounter a negative physical condition that does not require repair or inspection. In this instance the appraisal is based upon the existing condition.

"NO" is not a substitute for a home inspection by a qualified professional home inspector, but merely indicates that the appraiser did not observe the condition during the property inspection for valuation purposes.

For both "YES" and "NO" responses, exercise care and judgment in reporting the extent and the magnitude of the observed condition. The mere presence of an item may not require an inspection or repair. Likewise, depending on the condition observed, a minor observation may prove to be significant to the soundness of the property. The property analysis relies heavily on the appraiser's judgment. It is important to note all considerations as comments for each Valuation Condition.

For detailed instruction regarding the Valuation Conditions Form, please see the protocol in Appendix D of this Handbook.

Appraisals performed for HUD/FHA are not intended to protect the buyer: they protect HUD. Many homebuyers mistakenly believe that a HUD appraisal and subsequent inspection is a guarantee that the property is free from defects when, in fact, the appraisal only establishes the value of the property for mortgage insurance purposes. Buyers need to secure their own home inspection through the services of a qualified inspector and satisfy themselves about the condition of the property. If available in a

timely manner, home inspection reports should be sent to the appraiser; this affords the appraiser the opportunity to make valuation adjustments as needed.

C. PART 1: HOMEBUYER SUMMARY

This part summarizes required repairs from the appraiser's observation of the physical condition. The Homebuyer Summary intends to protect the homebuyer by informing him/her of any material conditions that typically make the property ineligible for FHA mortgage insurance.

- If any of the VC's are marked "YES" in the VC form, the appraiser must denote it in the appropriate box of the Homebuyer Summary and explain, in detail, the nature of the problem.

The summary also includes a notice to the homebuyer regarding the value of securing a home inspection, by a qualified inspector.

5-2 ACCESS TO FORMS

The Homebuyer Summary and Valuation Conditions Form are available electronically from the HUD Internet website: <http://www.hudclips.org/subscriber/html/forms.html>.

5-3 RECORD KEEPING

HUD reserves the right to request and review the appraiser's work files supporting an FHA-insured mortgage at any time and without prior notice. Appraisers on the FHA Register must comply with the record-keeping and inspection requirements as a condition of performing appraisals for FHA-insured mortgages.

A. MINIMUM TERM FOR RECORD KEEPING

The appraiser is required to keep supporting documentation in addition to a copy of the CVP. These files must be maintained for five years after the date of preparation or at least two years after final disposition of any judicial proceeding in which testimony was given, whichever expires last. This is consistent with the Record Keeping Rule of USPAP.

B. DOCUMENTATION FILE REQUIREMENTS

Although there is no prescribed file format or content, the appraiser's work files must include information to support all findings, observations and conclusions supporting the value estimate. The files must indicate the rationale for adjustments and the market data analyzed in the development of the appraisal report. The files must include documentation of the acceptance of the assignment and historical and factual information, such as photographs and maps. A sample documentation file index is provided below. This is not a comprehensive list of information.

C. SAMPLE DOCUMENTATION FILE

Section	Supporting Data
Acceptance of assignment	File memorandum
Property Description	Legal description Photographs Floor plans Tax map and information Field notes from inspection Listing information Offer to purchase
Neighborhood	Notes from the field visit Photographs Demographic data
Cost Approach (if applicable)	Relevant Marshall Swift Valuation information Calculations performed Land Sales detail
Sales Comparison Approach	Sale details and photographs Transaction information Derivation of adjustments Interview notes
income approach (if applicable)	Market rent comparable information Cap rate justification Historical financial statements
VC Conditions Noted	Photograph of condition Field notes Support for any assumed repairs Calculation of cost to repair a VC condition
Additional Information	Surveys Relevant market data Other sources of data